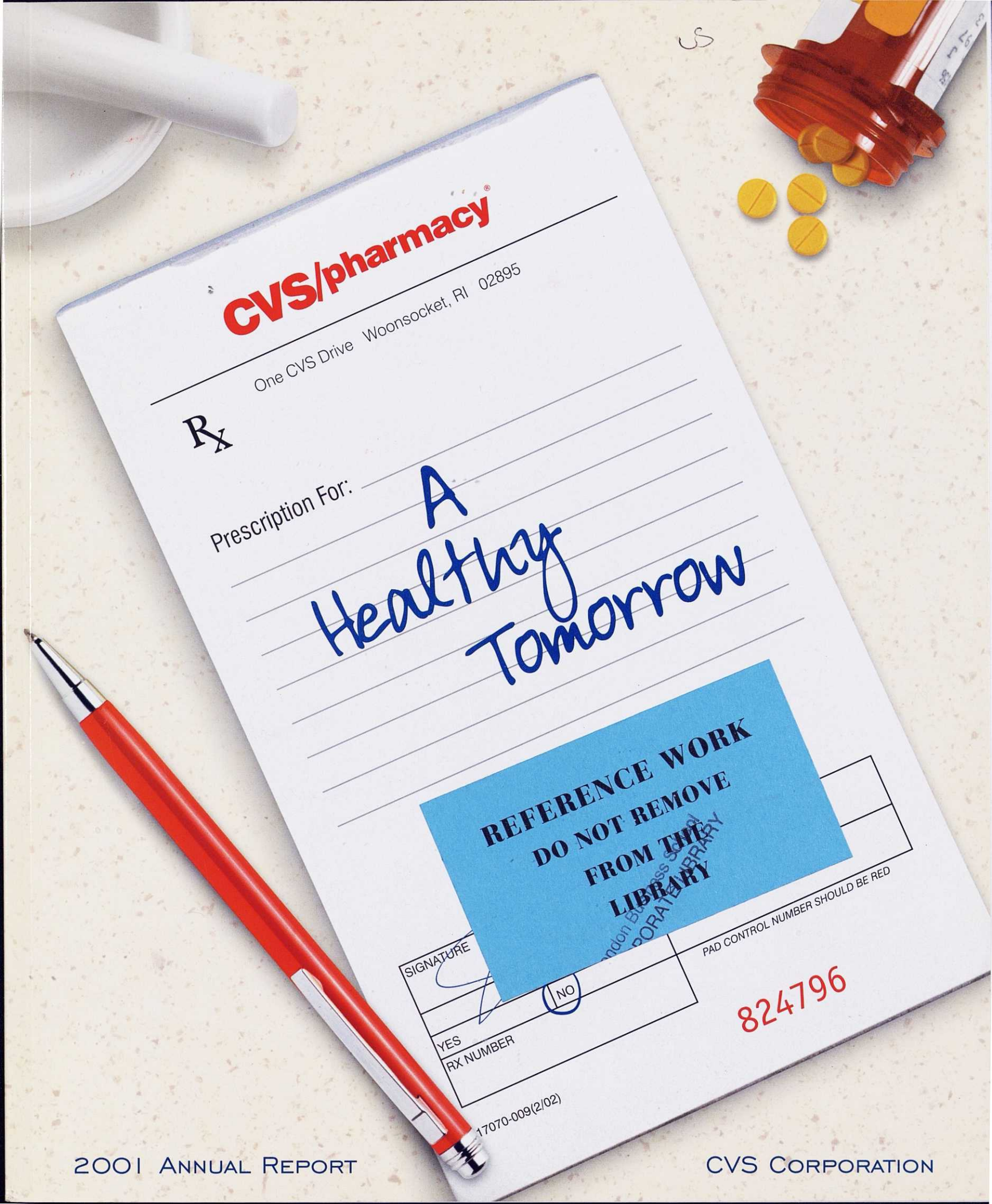
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2001 Achievements

- Total sales increased 10.7% to more than $22 Billion.
- Same store sales rose 8.6%, while pharmacy same store sales increased 13.0%.
- We opened 248 new and relocated stores, and ended the year with 4,191 stores.
- 43 of our new stores in 2001 were in new CVS markets with substantial growth potential, including Miami, Tampa, Orlando, Ft. Lauderdale, Chicago, Dallas, Houston, and Las Vegas.
- We rolled out our EPIC pharmacy system and workflow improvements to all of our stores.
- We improved inventory turns for the 4th consecutive year, hitting our 2001 goal of 4.3x.
- Our senior debt rating was upgraded by Moody's to A2, while our commercial paper rating was raised to Prime-1.
- We now operate 1,200 extended-hour stores, 1,600 drive-thru pharmacies, and 3,100 one-hour photo labs, offering convenience to our customers.
- More than 25 million people became ExtraCare® cardholders in the first year of our customer loyalty program, far exceeding our goal.

Financial Highlights

In millions, except per share	**2001 (52 weeks)**	2000 (52 weeks)	% Change
Sales	$ 22,241.4	$ 20,087.5	10.7
Operating profit*	1,119.6	1,303.5	-14.1
Net earnings*	641.6	734.5	-12.7
Diluted earnings per common share*	1.56	1.80	-13.3

**Excludes the impact of a restructuring charge in 2001 and nonrecurring gains recorded in 2000 and 2001. See page 31 for further information.*

Store Count By State

139	Alabama	**268**	Indiana	**29**	New Hampshire	**140**	Tennessee
1	Arizona	**66**	Kentucky	**219**	New Jersey	**11**	Texas
7	California	**18**	Maine	**414**	New York	**2**	Vermont
129	Connecticut	**172**	Maryland	**274**	North Carolina	**245**	Virginia
2	Delaware	**327**	Massachusetts	**375**	Ohio	**1**	Washington
45	Florida	**248**	Michigan	**1**	Oregon	**50**	Washington, D.C.
281	Georgia	**1**	Minnesota	**347**	Pennsylvania	**55**	West Virginia
1	Hawaii	**1**	Missouri	**54**	Rhode Island		
90	Illinois	**3**	Nevada	**175**	South Carolina		

TO OUR SHAREHOLDERS

2001 will be remembered as a year of great challenge—for our country, for its citizens, and for our economy. CVS Corporation will remember the year no differently.

Businesses of all sizes and across every industry faced intense challenges as we adjusted to the realities of our weakening economy. We are fortunate that our business, for the most part, is recession-resistant since we sell items that people need in their daily lives. Nevertheless, we experienced some specific areas of disappointment in 2001. We have taken action to correct the isolated pockets of problems that were within our control. Those factors not within our control—including the absence of major new drug approvals, the timing of generic introductions, and the weak economy—are likely to rebound over time. We see significant cause for optimism in 2002 and beyond.

We believe the pharmacy industry has the best long-term growth dynamics in all of retail. According to IMS Health, the pharmacy industry is projected to grow at a 12 to 14% annual rate through 2005. By that time, the pharmacy industry is expected to fill one billion more prescriptions than it does today. An aging American population, the introduction of new drugs, a strong generic pipeline, and the prospect of expanding Medicare benefits all contribute to this promising outlook. With more market leadership positions than any competitor—we rank #1 or #2 in 75% of the markets we serve—we are extremely well positioned to seize such growth opportunities.

Our prescription for growth includes a renewed focus on what made us so successful in the past—superior execution at the store level—by assuring our stores meet the "Triple S" of customer service. We want to be sure our customers can find everything they expect *in-stock*, that they can *shop* in a neat, well-organized store, and that they experience quick, personal, courteous *service*.

We are positioning ourselves with cutting-edge technology and innovative marketing programs, designed to improve service to customers and keep them coming back to our stores. Our ExtraCare® Loyalty Card, launched in early 2001, already has more than 25 million cardholders, far surpassing our projections. Our EPIC (Excellence in Pharmacy Innovation and Care) solution is active now in every store, increasing pharmacy productivity and reducing customer wait times. And our Assisted Inventory Management (AIM) system, which will be rolled out in 2002, is expected to improve our in-stock position, thereby enhancing customer service.

Our strong balance sheet is more cause for optimism as we enter 2002. We have the financial strength to support our aggressive growth program in the years to come.

We intend to leverage that strength as we target and enter new markets. We are establishing beachhead positions in some of the fastest-growing drugstore markets in the U.S., including Tampa, Orlando, Ft. Lauderdale, Miami, Chicago, Las Vegas, Dallas, and Houston. Early results are extremely promising. We plan to continue penetrating these and other high-growth markets in 2002 and the foreseeable future.

Finally, I have great confidence in our people, particularly our senior management team, which I believe is the best in the industry. They have played an integral part in our past successes.

We have a strong history of growth at CVS, making swift, steady progress since becoming a public company in 1996. Then, we had annual sales of $5 billion. Today, sales are more than $22 billion. Then, we had 1,400 stores in 14 states and the District of Columbia. Today, we rank #1 in store count with approximately 4,200 stores in 33 states and the District of Columbia.

I am happy to report that earnings growth is projected in the range of 8-10% in 2002, and in the longer term we believe 12-15% growth is achievable. Our commitment to restore long-term, sustained, double-digit earnings growth is unwavering.

To better position us for the future, we completed a comprehensive business review, which resulted in a plan to streamline operations. As a result, we will close 229 stores as well as one distribution center. We will also consolidate the operations of our pharmacy benefit management company, PharmaCare, with our specialty pharmacy business, ProCare, and close one mail facility. We took a non-recurring $353 million pre-tax charge in the fourth quarter related to this restructuring. The removal of these costs will contribute to a healthy financial outlook for CVS in the years ahead.

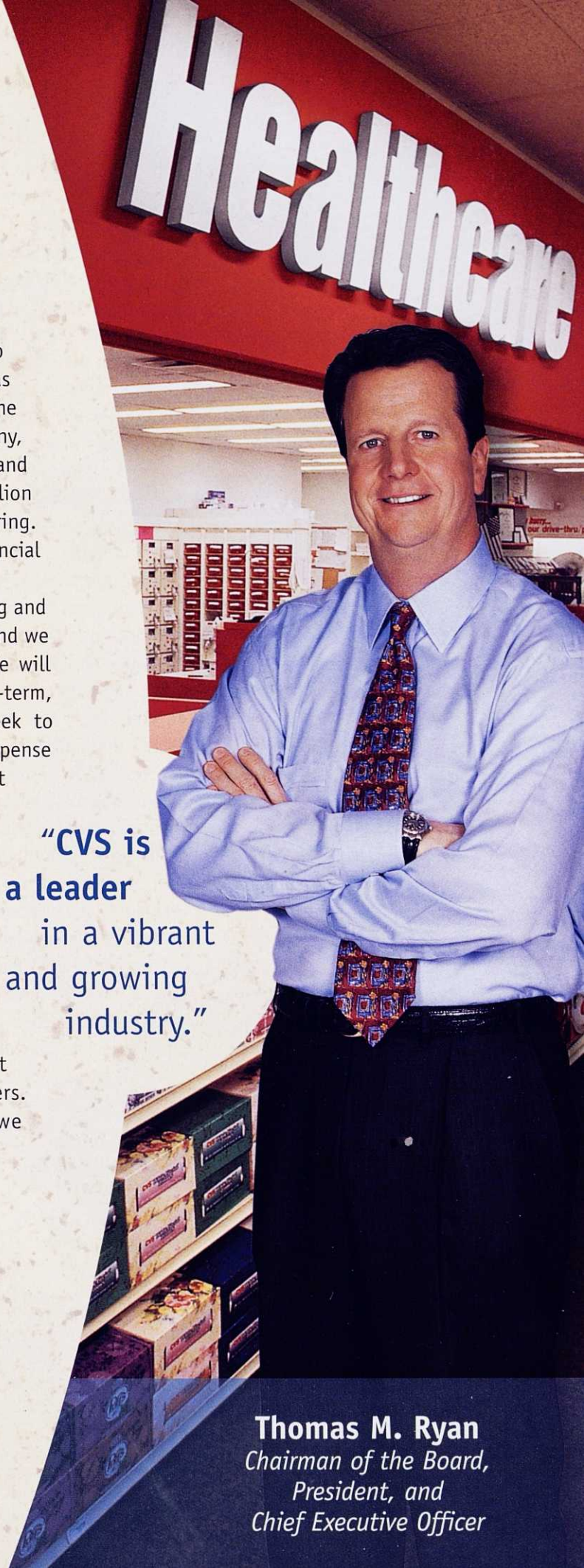
While 2001 was a challenging year, our history is reassuring and our future is bright. We operate in a terrific growth industry, and we have a solid balance sheet to support our future growth. We will continue to aggressively enter new markets to fuel long-term, sustainable, double-digit earnings growth. We will also seek to enhance our cost structure to maintain our edge in superior expense control, and we will continue to invest in state-of-the-art technology to maximize our efficiency.

Filling this prescription for growth requires the hard work and commitment of our 107,000 associates. We were especially proud of how they rose to the occasion in the dark hours of September 11, 2001, as our country experienced unspeakable tragedy, even offering on-the-ground assistance at the disaster sites. I want to thank each of them for their continued dedication.

We also appreciate the wise counsel of our Board of Directors, the strong leadership of our senior management team, and the support of our business partners and customers. We thank you, our shareholders, for your support, and we look forward to reporting our future good health.

Thomas M. Ryan
Chairman of the Board,
President, and Chief Executive Officer

"CVS is a leader in a vibrant and growing industry."



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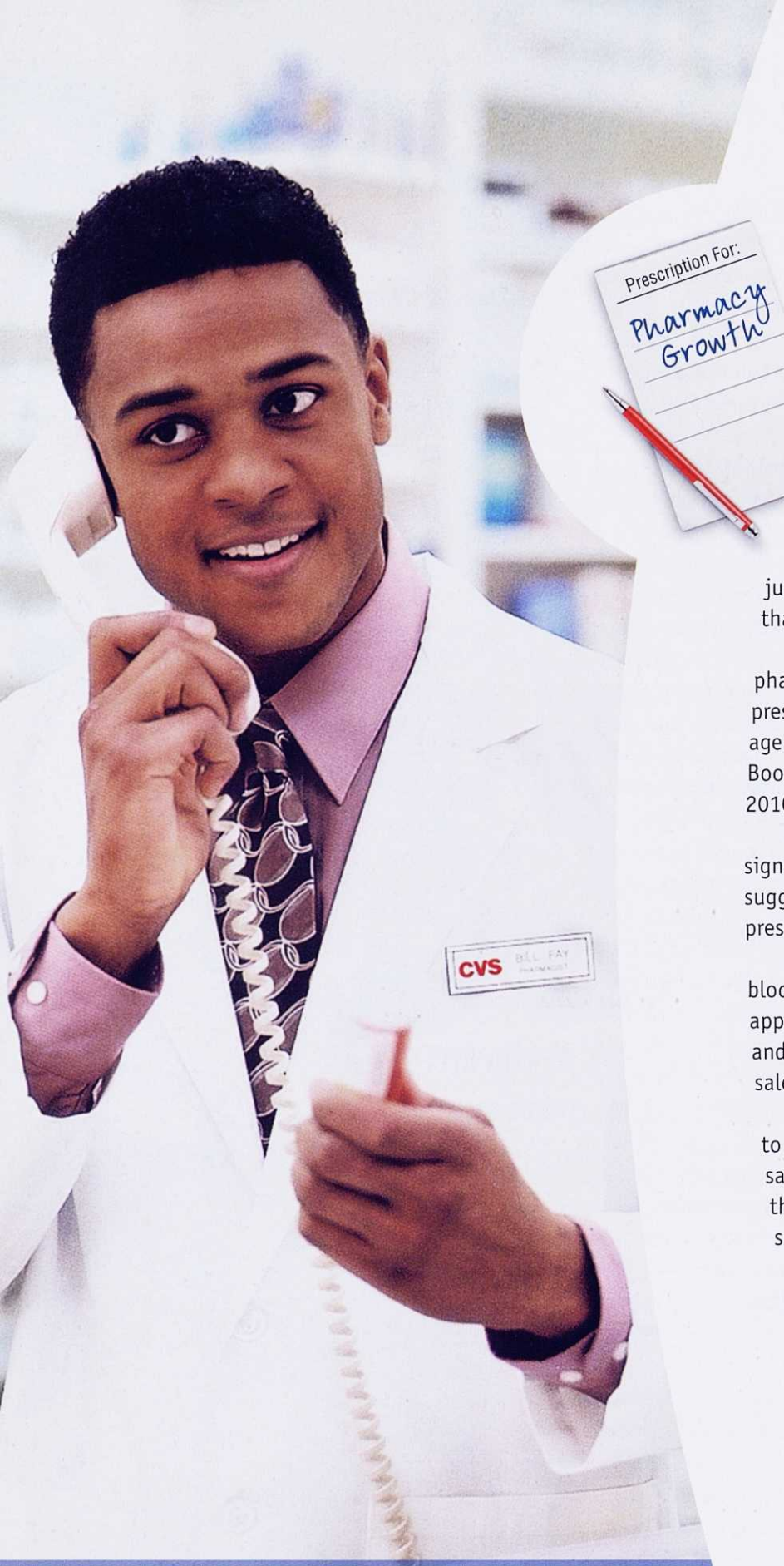


CVS/pharmacy is **the leader** in more U.S. drugstore markets than any other chain.

CVS fills prescriptions at more pharmacy locations than any other retailer. Pharmacy is our core business, representing 66% of our total revenues. We hold more market leadership positions than any other chain, ranking #1 in 35 of the 60 markets we serve.

A Positive Industry Outlook

The outlook for 2002 and beyond for the retail pharmacy industry is extremely vibrant, and we are clearly well positioned to capitalize on the significant opportunities that lie ahead. According to IMS Health, the pharmacy industry will jump from $140 billion in sales in 2000 to nearly double that by 2005.

The aging population is the most significant driver of pharmacy growth. While the average person has a prescription filled eight times a year, the average person over age 55 has a prescription filled 19 times a year. And the Baby Boomer generation is fast approaching that age range. By 2010, 25% of the U.S. population will be older than 55.

The continuing discovery of new drugs also has a significant impact on pharmacy growth. Industry estimates suggest that by 2002, more than 40% of total U.S. prescription sales will come from drugs introduced since 1998.

According to IMS Health there are 55 new drugs with blockbuster potential in the Food & Drug Administration's approval pipeline expected to reach the market between 2002 and 2005. Each of those drugs is believed to have an annual sales potential of $500 million or more.

Sales of higher-margin generic drugs also are expected to grow, as brand-name drugs representing $35 billion in sales are expected to be removed from the patent list over the next 5 to 7 years. We typically experience high substitution rates when patents expire.

A generic replacement for Prozac®, for example, became available in 2001, and with it we witnessed the fastest and most substantial conversion ever. In 2002, the patents for the gastrointestinal drug Prilosec® and the diabetes drug Glucophage® are expected to expire, among others. These two drugs have been blockbusters, having generated billions of dollars in revenue annually. Other drugs that may come off patent during 2002 include the hypertension drugs Prinivil® and Zestril®, and the epilepsy drug Neurontin®.

Finally, we remain optimistic that Congress will implement a responsible Medicare pharmacy benefit that serves an unmet need among senior citizens. There is growing interest in Congress to

address this concern, and there's no question that a Medicare pharmacy benefit would drive utilization, which should create pharmacy growth opportunities.

Focus on Excellence

Our prescription for healthy growth in our pharmacy business capitalizes on all these growth opportunities while at the same time intensifying our focus on service excellence, innovation and convenience.

Pharmacy is our core business, defining CVS' reputation as a world-class healthcare company.

We hired 2,000 pharmacists in 2001, a record number. Approximately 60% were hired from the competition, while the rest were recent graduates. Given the record number of hires, we are in the best pharmacist staffing position we have been in for 3 years. As a result, we are better able to provide the fast, courteous, convenient service that our customers deserve.

In addition, our pharmacist turnover has decreased dramatically over the past 2 years. Our compensation and benefits are attractive, and the value proposition we offer is compelling.

Pharmacists choose the CVS workplace for many reasons. They appreciate that pharmacy is our core business, not a secondary department, and they value the commitment CVS has made to invest in technologically advanced systems and a professional working environment.

Our Excellence in Pharmacy Innovation and Care (EPIC) initiative is an example of both. This project is comprised of proprietary technology and workflow improvements that combine to make our pharmacy operation more productive and more efficient. Our customers benefit from increased quality assurance and reduced wait times, and our staff benefits from a more professional atmosphere.

Counseling customers on their drug therapies is one of the most important duties our pharmacists perform.

Pharmacists place a high value on well-trained technicians who support them. As a result of our training program, our pharmacy technicians have a pass rate for state certification that is significantly above industry average.

EPIC enables trained, licensed technicians to perform many of the administrative tasks associated with filling a prescription, freeing pharmacists to do more of what they have devoted their careers to doing—assuring quality, spotting potential drug interactions, and counseling patients.

Our Drug Utilization Review (DUR) technology is another example of how we leverage technology to provide customer-focused services and increase our professionalism. DUR reduces the risk of adverse drug interactions by cross-checking each prescription against other medications, even over-the-counter and herbal remedies that the customer may be taking. These innovative and unique services foster the health and safety of our customers.

Our pharmacists and customers also appreciate CVS' Rapid Refill system—our 24-hour service that enables customers to renew prescriptions automatically by telephone—which now accounts for 50% of all refills. Customers can schedule renewals at their convenience, and pharmacists can better manage their workflow.

The strong growth dynamics in the pharmacy industry combine with our innovative, customer-focused, convenient healthcare strategies to give CVS a healthy, long-term future.

Our investment in technology and workflow improvements help CVS pharmacists focus on what's most important—taking care of our customers.

Right Products, Right Locations, Right Price

In each of our nearly 4,200 CVS/pharmacy locations, the higher margin front-end business is an integral part of our long-term growth plans. We combine the use of technology, business intelligence, and innovative merchandising strategies to stock the right products, in the right locations, at the right price.

This creates a measure of convenience that today's time-starved consumers cherish, but no other class of trade can offer.

Our core categories in the front-end of our stores—such as health, cosmetics, skin care, hair care, and photo—have been healthy with continued positive growth as we gain share over competitors in food, drug and mass merchandising.

One-hour photo labs, digital imaging services and photo processing make the photo category one of CVS' strongest lines of business.

Our photo labs continue to show strong growth, with one-hour labs now present in 3,100 stores. Customers have flocked to our digital photo service, having their photos developed in our labs, and then uploaded to the Kodak Picture Center® at CVS.com. To date, we have uploaded more than 50 million images for our customers through CVS.com. We hold the #1 share of Kodak's digital business by far, and we are Kodak's #1 customer for photo processing in our markets. We've also aligned with Kodak and America Online to offer our photo customers the opportunity to upload their pictures directly to their AOL addresses through AOL's "You've Got Pictures".

Our private brand Essence of Beauty® line of bath and body products successfully expanded to include shampoo and hair care offerings.

We have integrated CVS.com with our core business to better reflect how we do business with our customers. We use a variety of means to drive store customers to the website and draw website traffic to the stores, giving our customers plenty of convenient options. We're also looking at ways to make products available online that aren't practical to stock in each of our retail stores, giving customers an even greater selection.

Beauty remains a strong core category in the front end. We are #1 in our class of trade and #2 across all classes of trade in the beauty business.

In fact, we are introducing a new store layout that brings shoppers into the beauty section upon entry through the front door. Our new layout creates a "store within a store" for segments such as beauty, food and beverage, photo and greeting cards, and baby care—to create a more inviting, contemporary and appealing feel.

We rolled out our new store layout in 400 stores in 2001 and plan to have it in 600 additional stores in 2002. In the beauty area, the results so far indicate customers spend more time shopping and increase their rate of purchases in stores sporting the new design.

Our private label business continues to show strong growth, particularly with the expansion of the Essence of Beauty® line of bath and body products into shampoo and hair care products. These exclusive CVS products have achieved great acceptance, even in our new markets. Private label now represents 12% of our front-end business.

While we're enjoying success in many critical areas, we experienced slower front-store growth than projected in the first 9 months of 2001 due to the slumping economy and the competitive atmosphere. So we wrote ourselves a new

High margin CVS private label products feature top quality merchandise at affordable prices.

prescription to re-invigorate front-store growth. As a result, the fourth quarter of 2001 already reflected improving momentum in the front-end of our business.

We're re-energizing our seasonal and general merchandise business in several ways. We brought together a new team of professionals to better manage this important category. The new mix of merchandise is expected to produce improved results, with our successful 2001 Christmas season reflecting just the beginning of that trend.

We also are increasing our focus on tailoring our mix of products based on store location. Urban stores, for example, offer different products than those in the suburbs. In stores near high-business areas, we are stocking the kinds of products sought by lunchtime customer traffic.

We are accelerating our advertising spending in 2002, buying more print space, offering "hotter" prices, and airing more radio and TV advertising. We are increasing our broadcast levels to support new market initiatives, and to raise awareness around key products as well as our ExtraCare® program.

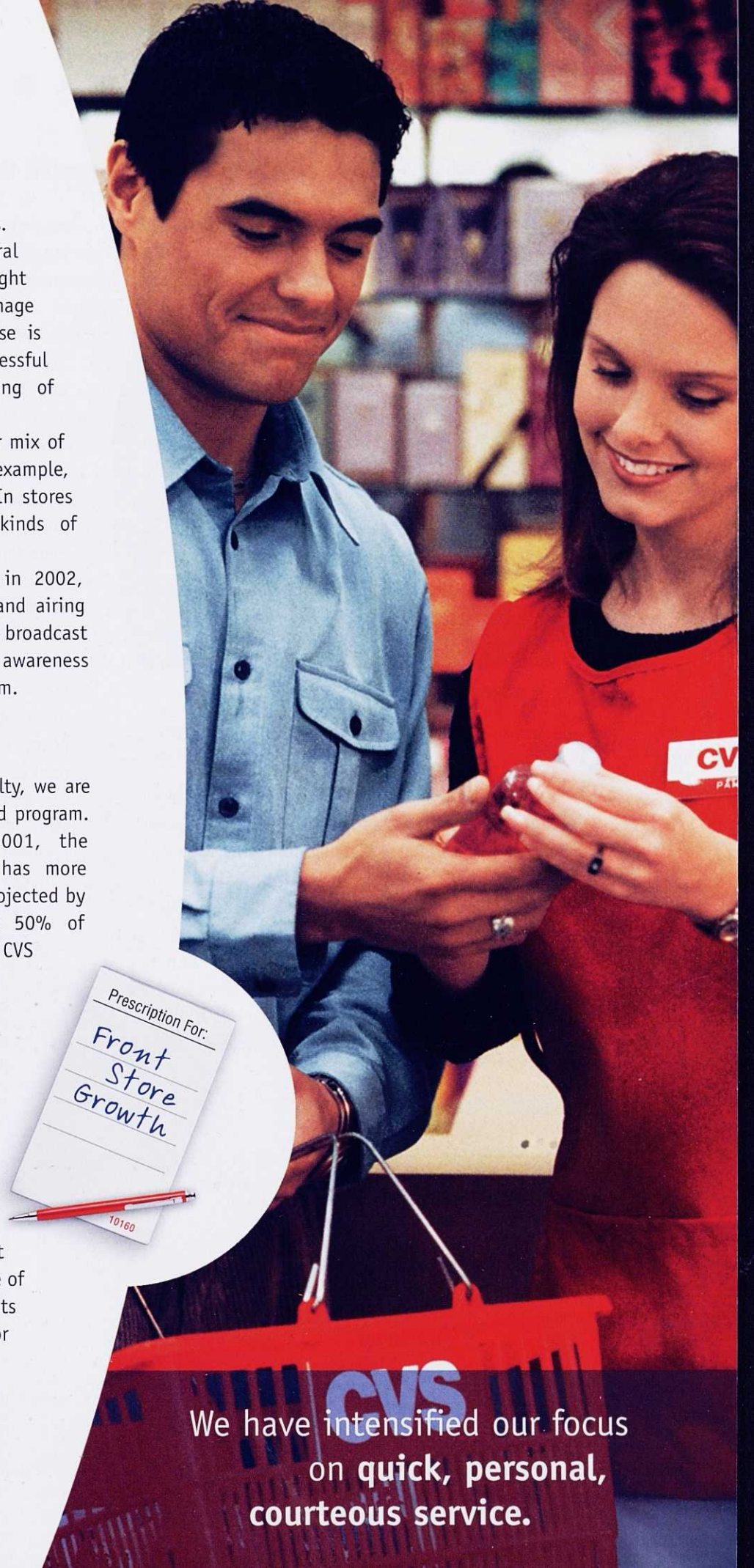
CVS/pharmacy ExtraCare®

Creating and Keeping Loyal Customers

To increase customer loyalty, we are maximizing our ExtraCare® card program. Rolled out in February 2001, the ExtraCare® program already has more than 25 million cardholders, 11 million more than projected by year's end. The card already is used in about 50% of transactions, and cardholders are spending more at CVS than non-cardholders. Our suppliers value the ExtraCare® program as well because they can benefit from rich trend data regarding shopper preferences.

Customers who opt into the program receive periodic mailings with targeted health-care information and coupons based on their stated preferences and purchasing patterns. They also receive one ExtraBuck® for every $25 they spend during designated shopping spree periods. ExtraBucks® are equivalent to dollars that customers can use to purchase front-end merchandise of their choice. We are planning further enhancements that will create additional value and convenience for our customers.

With our continued strong market share in key categories and our plans to drive new growth, we look forward to healthy front-store growth for the foreseeable future.



Our prescription for real estate expansion is focused on new, high-growth markets. Of the top 100 drugstore markets in the United States, we operate in 60. That leaves 40 new markets to enter that offer us excellent growth opportunities.

We continue to find outstanding opportunities for growth in existing markets. Our new location near Citicorp Center in New York City is expected to be a high volume store.

In essence, we're going where the people are going. Where there is significant population growth occurring, there is significant opportunity in retail pharmacy. That's where we plan to be.

Customers in Ft. Lauderdale, Tampa, Orlando, Miami, Chicago, Las Vegas, and parts of Texas are just getting their first taste of what it's like to shop at a CVS/pharmacy. So far, they appear to like what they see.

Customer traffic is strong, feedback is highly positive, and sales are exceeding our expectations. In surveys, customers of these new stores are giving very high marks for our critical service measures—in-stock availability of merchandise, the shoppability of our stores, and quick, personal service. To date our new stores in new markets are demonstrating strong results, offering great cause for optimism for the future.

New Markets, New Opportunities

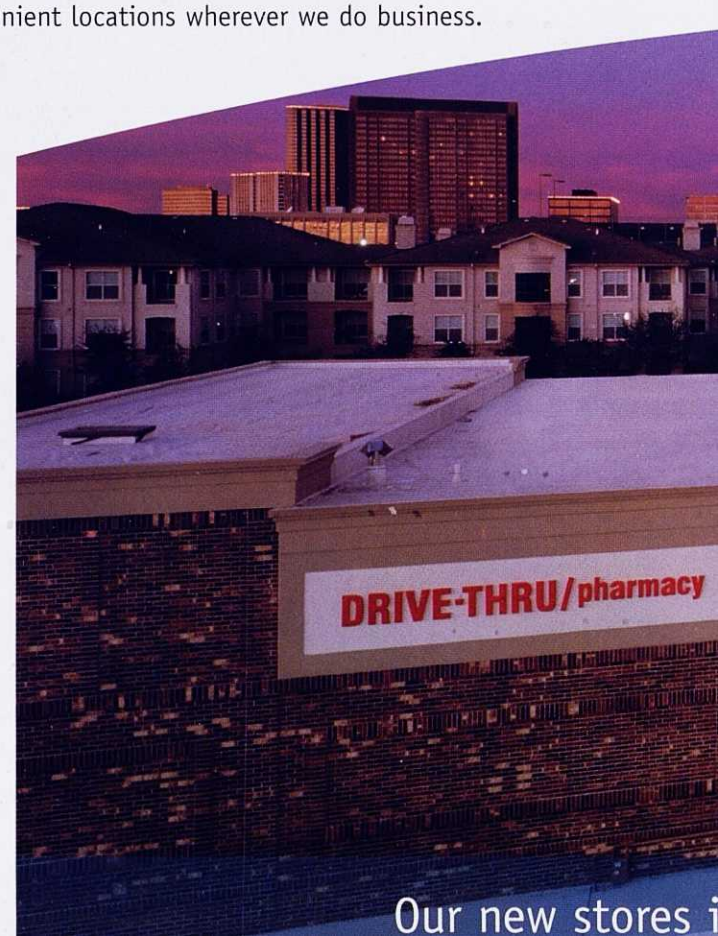
In 2001, we opened 43 stores in new CVS markets. That includes 17 stores in Chicago; 17 in Florida; 6 in the Dallas, Ft. Worth and Houston areas of Texas; and 3 in Las Vegas.

These markets have been identified as among the fastest growing drugstore markets in the United States because they are experiencing significant population growth. Not surprisingly, many of these areas also have high concentrations of senior citizens, who account for a significant and growing share of the prescription drug business.

Las Vegas, for example, is the 38th largest drugstore market. Las Vegas is projected to experience 58% growth in prescription usage over the next five years, and we intend to seize our share of that growth.

In 2002, we plan to open approximately 75 more new-market stores in the territories we've already announced. Over the long term, we expect to open hundreds of additional stores in these high-potential markets, as well as in additional new markets we are exploring.

At the same time, we remain committed to new stores and relocations in our existing stronghold territories to assure we offer customers choice, convenient locations wherever we do business.



Pictured is our new store in Houston, Texas, a new market for CVS that offers excellent growth opportunities.

Our new stores i

Estate Expansion

When we relocate a store from an inline shopping center to a freestanding corner location, the new store usually generates significantly higher sales, improved margins and a better return on invested capital than the store it replaces.

In 2001, we opened 248 new and relocated stores. Our net new store growth in 2001 totaled 58 stores, for an increase in square footage of approximately 2%.

For 2002, we plan to open 250-275 new or relocated CVS/pharmacies. At year-end 2001, approximately 43% of our stores were in freestanding locations. Our long-term goal remains to have 70-80% of our stores in freestanding/convenient locations with drive-thru pharmacies.

We also announced we will close 229 stores in early 2002 where we identified no relocation option and limited long-term growth potential. Most of these stores became part of CVS with the 1997 acquisition of Revco. The closing of these low-volume stores will elevate the quality of our store base and should help to improve our same-store sales performance.

Location, Location, Location

The selection of store locations is no simple task. Our CVS Realty team uses a sophisticated analytical process that leverages extensive market research and proprietary CVS software systems to identify the prime locations, right down to an exact corner of a given intersection.

We use statistical and in-field research, as well as spatial modeling, to identify demographic and other factors that drive customer traffic to our stores. Thus, when we open a new store or enter a new market, we do so with great confidence in the potential return on invested capital over the long term.

Our real estate expansion strategy—entering new markets, opening new stores in existing markets, and relocating stores to more convenient locations—will continue to be an important part of our long-term growth plan.

new markets, such as Florida, Chicago and Texas, are **exceeding** our expectations.

Helping People Is Our

In late 2001, we announced our intention to consolidate our specialty pharmacy business, ProCare, into PharmaCare Management Services, Inc. This consolidation better positions both companies to meet the growing demand for coordinated PBM and specialty pharmacy services.

PharmaCare Management Services is among the top 10 full-service PBMs in the country, providing a wide range of pharmacy benefit management services for more than 12 million lives nationwide. Its clients include managed care organizations, self-insured employers, and third-party administrators. Through its suite of cost containment management tools and risk-sharing arrangements, PharmaCare helps clients deliver quality, cost-effective pharmaceutical care.

Since its start in 1995, PharmaCare has delivered rapid revenue and earnings growth, and that healthy growth continues. In 2001, PharmaCare acquired United Provider Services. This acquisition added to PharmaCare's already significant presence in the third-party administrator sector and complimented its 2000 acquisition of ClaimsPro.

ProCare, the #1 specialty pharmacy business in America, provides specially trained pharmacy staff, convenient locations near medical centers, and home delivery service to patients with intensive drug therapies.

ProCare is the largest integrated retail/mail provider of specialty pharmacy services in the nation. Its mission is to assist individuals who are taking highly complex and expensive drug therapies to treat such conditions as organ transplant, HIV/AIDS, and genetic conditions treated with biotech injectables such as infertility, multiple sclerosis, and certain cancers.

ProCare currently operates 33 specialty pharmacy stores in 28 markets across the United States, primarily in or near major medical centers. The Company supplements local retail presence with national mail-service capabilities. With this unique integrated model and market leadership, ProCare is well positioned to further entrench itself as America's #1 specialty pharmacy.

ProCare and PharmaCare—A Winning Combination

Few PBMs today offer combined PBM and specialty pharmacy services of the caliber offered by ProCare. Most managed care companies still secure separate contracts for these services. But the significant growth in costs incurred by plans for specialty pharmaceuticals and the need for administrative synergies is driving demand for combined PBM and specialty pharmacy solutions. PharmaCare in combination with ProCare is well positioned for this emerging market dynamic. The $16 billion specialty pharmacy market is expected to grow at an even faster rate than traditional pharmacy due in large part to the robust pipeline of biotechnology drugs.

PHARMACARE
Cut costs. Not care.

ProCare consolidated some locations in early 2002 to focus its efforts on locations that provide a more profitable product mix. In addition, to improve efficiency, we will close one of ProCare's mail order facilities, consolidating all specialty mail services into the state-of-the-art mail facility acquired in the Stadtlander acquisition. ProCare's mail order facility acts as a central support hub for the stores, assisting with reimbursement services as well as offering the convenience of home delivery, depending on customer preference and geographic coverage.

The similarities in the operations and missions of PharmaCare and ProCare create significant opportunity for synergy as they merge into a single operation. We expect to benefit from a single marketing and sales force, and from consolidated overhead costs.

The combination of PharmaCare and ProCare into a single operation positions this new business for greater long-term growth potential in special healthcare services.

The Importance of Community

At CVS, our mission is to help people live longer, healthier and happier lives. An integral part of this effort is our investment in the communities we serve. To maximize our charitable resources, we focus our community programs on healthcare and education.

We work closely with organizations such the **American Diabetes Association**, the **American Heart Association**, **Easter Seals**, the **United Way** and many others to promote advocacy, prevention and cures for diseases.

Reach Out and Read is a pediatric literacy program that introduces children to reading during visits with their pediatricians. The **CVS Innovations Grants Program** provides funding to public K-12 schools in many of our markets, supporting innovative initiatives proposed by educators. The **CVS Charity Golf Classic**, an annual tournament for PGA pros, has contributed more than $1.5 million to dozens of charities in just three years.

Our greatest assets are our 107,000 CVS associates. We are especially proud of the way they rushed to assist following the devastating events of September 11th. In lower Manhattan, our CVS/pharmacy on Fulton Street served as an emergency medical staging area to help victims. We also operate a store inside the Pentagon, and we provided food, water, medicine and other assistance to fire and rescue personnel. At our distribution center in Somerset, PA, just a few miles from the United Airlines Flight 93 crash site, our associates provided food and water to emergency service workers. CVS helped to provide a substantial donation to the **American Red Cross Disaster Relief Fund** through a combination of CVS-sponsored events and a chain-wide, in-store employee/customer fundraising initiative.

We support our associates' commitment to their local communities through the **CVS Charitable Trust Volunteer Challenge Grant**. Each year, we award more than 400 grants to non-profit agencies on behalf of CVS associates who volunteer at these organizations.

We also value the efforts of people seeking to improve their lives. Our welfare to work program is the best of its kind offered by any retailer in America, focusing on job training and placement of people who want to work in our stores and facilities.

Using resources ranging from financial support to the talents of our associates, CVS remains dedicated to improving the lives of others, allowing us to give back to the communities where we do business.

CVS associates are **actively involved** in the communities we serve.

Introduction

For an understanding of the significant factors that influenced our performance during the past three fiscal years, the following discussion should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements presented in this Annual Report.

Comprehensive Business Review

During the fourth quarter of 2001, management approved an Action Plan, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies. The Action Plan included the following initiatives:

- Closing 229 CVS/pharmacy and CVS ProCare stores;
- Closing our Henderson, North Carolina distribution center;
- Closing our Columbus, Ohio mail order facility;
- Closing two of our satellite office facilities;
- Consolidating our specialty pharmacy business, CVS ProCare, into our pharmacy benefit management business, PharmaCare; and consolidating our Internet business into our Retail Pharmacy business; and
- Staff reductions related to the above closings and other streamlining initiatives.

In accordance with Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," we recorded a $346.8 million pre-tax ($226.9 million after-tax) charge to operating expenses during the fourth quarter of 2001 for restructuring and asset impairment costs associated with the Action Plan. In accordance with Accounting Research Bulletin No. 43, "Restatements and Revision of Accounting Research Bulletins," we also recorded a $5.7 million pre-tax charge ($3.6 million after-tax) to cost of goods sold during the fourth quarter of 2001 to reflect the markdown of certain inventory contained in the closing stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), or $0.56 per diluted share in 2001 (the "Restructuring Charge"). Please read Note 2 to the consolidated financial statements for other important information about the Restructuring Charge.

Results of Operations

Fiscal 2001, which ended on December 29, 2001 and fiscal 2000, which ended on December 30, 2000, each included 52 weeks. Fiscal 1999, which ended on January 1, 2000, included 53 weeks.

Net sales ~ The following table summarizes our sales performance for the respective years:

	2001	2000	1999
Net sales *(in billions)*	**$ 22.2**	$ 20.1	$ 18.1
Net sales increase[1]	**10.7%**	11.0%	18.5%
Same store sales increase:			
Total	**8.6%**	10.9%	12.5%
Pharmacy	**13.0%**	17.7%	19.4%
Front store	**1.2%**	1.1%	3.6%
Pharmacy % of total sales	**66.1%**	62.7%	58.7%
Third party % of pharmacy sales	**90.9%**	89.2%	86.5%

(1) The increase in net sales during 2000 was negatively impacted by the 53rd week in 1999, while the increase in 1999 was positively impacted. Excluding the 53rd week in 1999, comparable net sales increased 13.4% in 2000 and 16.0% in 1999.

As you review our sales performance, we believe you should consider the following important information:

- Our pharmacy sales growth has benefited from our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population consuming a greater number of prescription drugs, the increased use of pharmaceuticals as the first line of defense for healthcare and the introduction of a number of successful new prescription drugs in 1999 and 2000. However, the introduction of new prescription drugs had less of an impact on sales in 2001, compared to recent years, due to the lack of significant "blockbuster" drug introductions during 2001. It is possible that this trend will continue in 2002 as there is no way to predict with certainty the pace of new drug introductions. Further, sales in 2002 are expected to be negatively impacted by the expiration of patent protection on a number of popular branded pharmaceutical products, which will likely result in the introduction of lower priced generic equivalents. However, gross margins on generic drug sales are generally higher than on sales of equivalent higher priced branded drugs.
- Sales were negatively impacted during 2001 by a pharmacist shortage in certain markets combined with the weakening economy and an increasingly competitive environment that ultimately resulted in lower customer counts and lost sales during 2001. To address these issues, we intensified our pharmacist recruiting and retention efforts. These efforts significantly improved staffing levels and reduced turnover in our stores. As of the end of August 2001, we had returned to full staffing levels. We also initiated a customer reactivation program, which involved direct mailings and targeted incentives to former CVS customers. Further, we increased our promotional activity in response to the increasingly competitive environment. To the extent necessary, we expect to continue these programs in selected markets during 2002.

- We continued to relocate our existing shopping center stores to larger, more convenient, freestanding locations. Historically, we have achieved significant improvement in customer count and net sales from store relocations. Although the number of annual relocations has decreased, our relocation strategy will remain an important component of our overall growth strategy, as only approximately 43% of our existing stores will be freestanding following the above-mentioned 229 store closings. Our current long-term expectation is to have 70 to 80% of our stores located in freestanding locations. We cannot, however, guarantee that we will achieve this level or that future store relocations will deliver the same positive results as those historically achieved. Please read the "Cautionary Statement Concerning Forward-Looking Statements" section below.

Gross margin as a percentage of net sales was 25.6% in 2001. This compares to 26.7% in 2000 and 26.9% in 1999.

Why has our gross margin rate been declining?

- Pharmacy sales grew and we believe will continue to grow at a faster pace than front store sales. On average, our gross margin on pharmacy sales is lower than our gross margin on front store sales. Pharmacy sales were 66% of total sales in 2001, compared to 63% in 2000 and 59% in 1999.
- Sales to customers covered by third party insurance programs have increased and we believe will continue to increase, and thus have become a larger part of our total pharmacy business. On average, our gross margin on third party pharmacy sales is lower than our gross margin on cash pharmacy sales. Third party prescription sales were 91% of pharmacy sales in 2001, compared to 89% in 2000 and 87% in 1999.
- Also contributing to the decline during 2001 was an increase in markdowns associated with the increased promotional activity discussed above and elevated physical inventory losses. To address the physical inventory loss trend, we initiated a number of programs, including, but not limited to, moving high-cost merchandise behind the counter or glass and improving our employee background screening and testing programs. We believe these efforts will begin to reduce inventory losses during 2002. However, we cannot guarantee that these programs will produce the desired results.

Total operating expenses were 22.1% of net sales in 2001. This compares to 20.1% of net sales in 2000 and 20.6% in 1999. As you review our performance in this area, please remember to consider the impact of the following nonrecurring charge and gains:

- During 2001, we recorded a $346.8 million pre-tax ($226.9 million after-tax) restructuring and asset impairment charge in connection with the Action Plan discussed above.
- During 2001, we received $50.3 million of settlement proceeds from various lawsuits against certain manufacturers of brand name prescription drugs. We elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving. The net effect of these nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings.
- During 2000, we recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs.

If you exclude the impact of the nonrecurring items discussed above, comparable total operating expenses as a percentage of net sales were 20.6% in 2001, 20.2% in 2000 and 20.6% in 1999.

As you review our comparable operating expenses, we believe you should consider the following important information:

- Total operating expenses as a percentage of net sales increased during 2001 primarily due to higher store payroll expense resulting from market wage pressures and the shortage of pharmacists discussed above, as well as increased benefit costs due to rising healthcare costs and higher advertising expense as we implemented our customer reactivation program aimed at attracting lost customers and in response to the increasingly competitive environment.
- Total operating expenses as a percentage of net sales decreased during 2000 due to improved operating efficiencies, particularly at the store level, resulting from information technology initiatives and better leveraging of fixed operating expenses against our net sales growth in 2000.

Operating profit decreased $552.1 million in 2001 to $770.6 million as a consequence of the above factors. This compares to $1.3 billion in 2000 and $1.1 billion in 1999. If you exclude the effect of the Restructuring Charge, the $3.5 million net nonrecurring gain in 2001 and the $19.2 million litigation gain in 2000, our comparable operating profit decreased $183.9 million in 2001 to $1.1 billion. This compares to $1.3 billion in 2000 and $1.1 billion in 1999. Comparable operating profit as a percentage of net sales was 5.0% in 2001, 6.5% in 2000 and 6.3% in 1999.

Interest expense, net consisted of the following:

In millions	**2001**	2000	1999
Interest expense	**$ 65.2**	$ 84.1	$ 66.1
Interest income	**(4.2)**	(4.8)	(7.0)
Interest expense, net	**$ 61.0**	$ 79.3	$ 59.1

The decrease in interest expense in 2001 was due to a combination of lower average interest rates and lower average borrowing levels during 2001 compared to 2000. The increase in interest expense in 2000 was due to a combination of higher average interest rates and higher average borrowing levels during 2000 compared to 1999.

Income tax provision ~ Our effective income tax rate was 41.8% in 2001, 40.0% in 2000 and 41.0% in 1999. Our effective income tax rate was higher in 2001 because certain components of the Restructuring Charge were not deductible for income tax purposes. The decrease in our effective income tax rate in 2000 was primarily due to lower state income taxes. Excluding the impact of the Restructuring Charge, our effective income tax rate was 39.4% in 2001.

Net earnings decreased $332.8 million to $413.2 million (or $1.00 per diluted share) in 2001. This compares to $746.0 million (or $1.83 per diluted share) in 2000 and $635.1 million (or $1.55 per diluted share) in 1999. If you exclude the effect of the Restructuring Charge and the $2.1 million net nonrecurring gain (or $0.56 per diluted share) in 2001 and the $11.5 million litigation gain (or $0.03 per diluted share) in 2000, our comparable net earnings decreased $92.9 million to $641.6 million (or $1.56 per diluted share) in 2001. This compares to $734.5 million (or $1.80 per diluted share) in 2000 and $635.1 million (or $1.55 per diluted share) in 1999.

Liquidity & Capital Resources

We fund the growth of our business through a combination of cash flow from operations, commercial paper and long-term borrowings. Our liquidity is not currently dependent on the use of off-balance sheet transactions other than normal operating leases.

We had $235.8 million of commercial paper outstanding at a weighted average interest rate of 2.1% as of December 29, 2001. In connection with our commercial paper program, we maintain a $650 million, five-year unsecured back-up credit facility, which expires on May 30, 2006 and a $650 million, 364-day unsecured back-up credit facility, which expires on May 30, 2002. We currently expect to replace the 364-day facility with a similar facility during 2002. The credit facilities allow for borrowings at various rates depending on our public debt rating. As of December 29, 2001, we had not borrowed against the credit facilities.

During 2001, we issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. We may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

Our credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. We do not believe that the restrictions contained in the covenants materially affect our financial or operating flexibility.

Our liquidity is based, in part, on maintaining strong investment-grade debt ratings. During 2001, our debt ratings were upgraded by Moody's to 'A2' for long-term debt and 'P-1' for commercial paper, while Standard and Poor's affirmed our 'A' rating for long-term debt and 'A-1' for commercial paper. We do not currently foresee any reasonable circumstances under which we would lose our investment-grade debt ratings. However, if this were to occur, it could adversely impact, among other things, our future borrowing costs, access to capital markets and new store operating lease costs.

We believe that our cash on hand, cash provided by operations, our commercial paper program and our ability to obtain alternative sources of financing should be sufficient to cover our working capital needs, capital expenditures and debt service requirements for at least the next twelve months and beyond.

On March 6, 2000, the Board of Directors approved a common stock repurchase program, which allows the Company to acquire up to $1 billion of its common stock, in part, to fund employee benefit plans. During 2001, we repurchased 3.4 million shares at an aggregate cost of $129.0 million. Since inception of the program, we repurchased 8.1 million shares at an aggregate cost of $292.2 million.

Net cash provided by operating activities decreased to $680.6 million in 2001. This compares to $780.2 million in 2000 and $726.3 million in 1999. The decline in net cash provided by operations was primarily the result of lower net earnings. Cash provided by operating activities will be negatively impacted by future payments associated with the Restructuring Charge. The timing of future cash payments related to the Restructuring Charge depend on when, and if, early lease terminations can be reached. We currently anticipate that a majority of the lease obligations will be settled during 2002. As of December 29, 2001, the remaining payments, which primarily consist of noncancelable lease obligations extending through 2024, totaled $244.8 million.

Net cash used in investing activities decreased to $536.8 million in 2001. This compares to $640.5 million in 2000 and $566.4 million in 1999. The decline in net cash used in investing activities was primarily due to reduced acquisition activity. Additions to property and equipment totaled $713.6 million during 2001. This compares to $695.3 million in 2000 and $722.7 million in 1999. During 2001 we opened 126 new stores, relocated 122 stores and closed 68 stores. New store development included 43 stores in new markets, including: Miami and Ft. Lauderdale, Florida; Las Vegas, Nevada; and Dallas, Houston and Fort Worth, Texas. During 2002 we project approximately 150-175 new stores, including 75 in new markets, 100 relocations and 50 store closings in addition to the Restructuring Charge store closings. As of December 29, 2001, we operated 4,191 retail and specialty pharmacy stores in 33 states and the District of Columbia. This compares to 4,133 stores as of December 30, 2000.

We finance a portion of our new store development program through sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $323.3 million in 2001. This compares to $299.3 million in 2000 and $229.2 million in 1999. Typically, the properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. During 2001, we also completed a sale-leaseback transaction involving five of our distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. We also have an operating lease agreement totaling $200 million, under which the lessor purchases the properties, pays for the construction costs and we subsequently lease the store upon completion of construction. During 2001, we leased 26 stores constructed under this agreement. We do not consider the use of this agreement to be a critical component of our future financing and/or real estate development strategies.

The following table summarizes our future cash outflows resulting from financial contracts and commitments as of December 29, 2001:

	Payments Due by Period				
In millions	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Lease obligations[1]	$8,832.6	$756.6	$1,384.8	$1,183.0	$5,508.2
Long-term debt	836.8	26.4	355.6	362.6	92.2
Purchase commitments	269.0	38.4	76.8	76.8	77.0
Severance[1]	17.4	17.4	—	—	—
	$9,955.8	$838.8	$1,817.2	$1,622.4	$5,677.4

(1) The remaining cash payments associated with the Restructuring Charge include $227.4 million of lease obligations and $17.4 million of severance.

Critical Accounting Policies

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on other assumptions that we believe to be relevant under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and/or conditions. For a detailed discussion of our critical accounting policies and related estimates and judgments, see Note 1 to the consolidated financial statements.

Recent Accounting Pronouncements

In June 2001, SFAS No. 141, "Business Combinations" was issued. SFAS No. 141, which is effective for acquisitions initiated after June 30, 2001, prohibits the use of the pooling-of-interests method of accounting for business combinations and amends the accounting and financial reporting requirements for business combinations.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142, addresses financial accounting and reporting for acquired goodwill and other intangible assets. Among other things, SFAS No. 142 requires that goodwill no longer be amortized, but rather tested annually for impairment. This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, we will adopt SFAS No. 142 effective fiscal 2002 and are evaluating the effect such adoption may have on our consolidated results of operations and financial position. Amortization expense related to goodwill was $31.4 million in 2001 and $33.7 million in 2000.

Also in June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, we will adopt SFAS No. 143 effective fiscal 2003 and do not expect that the adoption will have a material impact on our consolidated results of operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Accordingly, we will adopt SFAS No. 144 effective fiscal 2002 and do not expect that the adoption will have a material impact on our consolidated results of operations or financial position.

Cautionary Statement Concerning Forward-Looking Statements

Certain written and oral statements made by CVS Corporation and its subsidiaries or with the approval of an authorized executive officer of the Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Words or phrases such as "should result," "are expected to," "we anticipate," "we estimate," "we project," "we believe" or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and present expectations or projections. These risks and uncertainties include, but are not limited to, general economic conditions; the impact of competition; benefits obtained from the restructuring and customer reactivation program; consumer preferences and spending patterns; cost containment efforts by third party payers; the ability to attract, train and retain highly-qualified associates; conditions affecting the availability, acquisition and development of real estate; and regulatory and litigation matters. Caution should be taken not to place undue reliance on any such forward-looking statements, since such statements speak only as of the date of the making of such statements. Additional information concerning these risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

Consolidated Statements of Operations

In millions, except per share amounts	**December 29, 2001 (52 weeks)**	December 30, 2000 (52 weeks)	January 1, 2000 (53 weeks)
Net sales	**$ 22,241.4**	$ 20,087.5	$ 18,098.3
Cost of goods sold, buying and warehousing costs	**16,550.4**	14,725.8	13,236.9
Gross margin	**5,691.0**	5,361.7	4,861.4
Selling, general and administrative expenses	**4,599.6**	3,742.4	3,448.0
Depreciation and amortization	**320.8**	296.6	277.9
Total operating expenses	**4,920.4**	4,039.0	3,725.9
Operating profit	**770.6**	1,322.7	1,135.5
Interest expense, net	**61.0**	79.3	59.1
Earnings before income tax provision	**709.6**	1,243.4	1,076.4
Income tax provision	**296.4**	497.4	441.3
Net earnings	**413.2**	746.0	635.1
Preference dividends, net of income tax benefit	**14.7**	14.6	14.7
Net earnings available to common shareholders	**$ 398.5**	$ 731.4	$ 620.4
Basic earnings per common share:			
Net earnings	**$ 1.02**	$ 1.87	$ 1.59
Weighted average common shares outstanding	**392.2**	391.0	391.3
Diluted earnings per common share:			
Net earnings	**$ 1.00**	$ 1.83	$ 1.55
Weighted average common shares outstanding	**408.3**	408.0	408.9
Dividends declared per common share	**$ 0.230**	$ 0.230	$ 0.230

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except shares and per share amounts	December 29, 2001	December 30, 2000
Assets:		
Cash and cash equivalents	**$ 236.3**	$ 337.3
Accounts receivable, net	**966.2**	824.5
Inventories	**3,918.6**	3,557.6
Deferred income taxes	**242.6**	124.9
Other current assets	**90.4**	92.3
Total current assets	**5,454.1**	4,936.6
Property and equipment, net	**1,847.3**	1,742.1
Goodwill, net	**827.0**	818.5
Other assets	**499.8**	452.3
Total assets	**$ 8,628.2**	$ 7,949.5
Liabilities:		
Accounts payable	**$ 1,535.8**	$ 1,351.5
Accrued expenses	**1,267.9**	1,001.4
Short-term debt	**235.8**	589.6
Current portion of long-term debt	**26.4**	21.6
Total current liabilities	**3,065.9**	2,964.1
Long-term debt	**810.4**	536.8
Deferred income taxes	**35.3**	28.0
Other long-term liabilities	**149.7**	116.0
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	**—**	—
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 4,887,000 shares at December 29, 2001 and 5,006,000 shares at December 30, 2000	**261.2**	267.5
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 408,532,000 shares at December 29, 2001 and 407,395,000 shares at December 30, 2000	**4.1**	4.1
Treasury stock, at cost: 17,645,000 shares at December 29, 2001 and 15,073,000 shares at December 30, 2000	**(510.8)**	(404.9)
Guaranteed ESOP obligation	**(219.9)**	(240.6)
Capital surplus	**1,539.6**	1,493.8
Retained earnings	**3,492.7**	3,184.7
Total shareholders' equity	**4,566.9**	4,304.6
Total liabilities and shareholders' equity	**$ 8,628.2**	$ 7,949.5

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares			Dollars		
	December 29, 2001	December 30, 2000	January 1, 2000	**December 29, 2001**	December 30, 2000	January 1, 2000
Preference stock:						
Beginning of year	**5.0**	5.2	5.2	**$ 267.5**	$ 276.0	$ 280.0
Conversion to common stock	**(0.1)**	(0.2)	—	**(6.3)**	(8.5)	(4.0)
End of year	**4.9**	5.0	5.2	**261.2**	267.5	276.0
Common stock:						
Beginning of year	**407.4**	403.0	401.4	**4.1**	4.0	4.0
Stock options exercised and awards under stock plans	**1.1**	4.4	1.0	**—**	0.1	—
Other	**—**	—	0.6	**—**	—	—
End of year	**408.5**	407.4	403.0	**4.1**	4.1	4.0
Treasury stock:						
Beginning of year	**(15.1)**	(11.1)	(11.2)	**(404.9)**	(258.5)	(260.2)
Purchase of treasury shares	**(3.4)**	(4.7)	—	**(129.0)**	(163.2)	—
Conversion of preference stock	**0.3**	0.4	0.2	**7.5**	9.1	4.0
Other	**0.6**	0.3	(0.1)	**15.6**	7.7	(2.3)
End of year	**(17.6)**	(15.1)	(11.1)	**(510.8)**	(404.9)	(258.5)
Guaranteed ESOP obligation:						
Beginning of year				**(240.6)**	(257.0)	(270.7)
Reduction of guaranteed ESOP Obligation				**20.7**	16.4	13.7
End of year				**(219.9)**	(240.6)	(257.0)
Capital surplus:						
Beginning of year				**1,493.8**	1,371.7	1,336.4
Conversion of preference stock				**(1.2)**	(0.7)	0.1
Stock options exercised and awards under stock plans				**42.8**	120.1	31.3
Other				**4.2**	2.7	3.9
End of year				**1,539.6**	1,493.8	1,371.7
Retained earnings:						
Beginning of year				**3,184.7**	2,543.5	2,021.1
Net earnings				**413.2**	746.0	635.1
Dividends:						
Preference stock, net of income tax benefit				**(14.7)**	(14.6)	(14.7)
Common stock				**(90.5)**	(90.2)	(90.0)
Immaterial pooling of interests				**—**	—	(8.0)
End of year				**3,492.7**	3,184.7	2,543.5
Total shareholders' equity				**$ 4,566.9**	$ 4,304.6	$ 3,679.7

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	December 29, 2001 (52 weeks)	December 30, 2000 (52 weeks)	January 1, 2000 (53 weeks)
Cash flows from operating activities:			
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Adjustments required to reconcile net earnings to net cash provided by operating activities:			
Restructuring charge	**352.5**	—	—
Depreciation and amortization	**320.8**	296.6	277.9
Deferred income taxes and other noncash items	**(83.5)**	43.8	124.8
Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions:			
Accounts receivable, net	**(141.7)**	(86.7)	(48.9)
Inventories	**(366.8)**	(98.1)	(255.0)
Other current assets	**4.1**	7.0	(16.7)
Other assets	**(13.9)**	(50.1)	(97.9)
Accounts payable	**184.4**	(133.6)	166.8
Accrued expenses	**11.6**	59.6	(37.7)
Other long-term liabilities	**(0.1)**	(4.3)	(22.1)
Net cash provided by operating activities	**680.6**	780.2	726.3
Cash flows from investing activities:			
Additions to property and equipment	**(713.6)**	(695.3)	(722.7)
Proceeds from sale-leaseback transactions	**323.3**	299.3	229.2
Acquisitions, net of cash	**(159.1)**	(263.3)	(101.1)
Proceeds from sale or disposal of assets	**12.6**	18.8	28.2
Net cash used in investing activities	**(536.8)**	(640.5)	(566.4)
Cash flows from financing activities:			
Additions to (reductions in) long-term debt	**295.9**	(0.9)	298.1
Proceeds from exercise of stock options	**47.3**	97.8	20.4
Dividends paid	**(105.2)**	(104.8)	(104.7)
Purchase of treasury shares	**(129.0)**	(163.2)	—
(Reductions in) additions to short-term borrowings	**(353.8)**	138.7	(324.5)
Net cash used in financing activities	**(244.8)**	(32.4)	(110.7)
Net (decrease) increase in cash and cash equivalents	**(101.0)**	107.3	49.2
Cash and cash equivalents at beginning of year	**337.3**	230.0	180.8
Cash and cash equivalents at end of year	**$ 236.3**	$ 337.3	$ 230.0

See accompanying notes to consolidated financial statements.

1 Significant Accounting Policies

Description of business ~ CVS Corporation, together with its subsidiaries ("CVS" or the "Company") is principally in the retail drugstore business. As of December 29, 2001, the Company operated 4,191 retail and specialty pharmacy drugstores and various mail order facilities located in 33 states and the District of Columbia. See Note 10 for further information about the Company's business segments.

Basis of presentation ~ The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Fiscal Year ~ The Company operates on a "52/53 week" fiscal year. Fiscal year 2001 and 2000 ended December 29, 2001 and December 30, 2000, respectively and included 52 weeks. Fiscal 1999 ended January 1, 2000 and included 53 weeks. Unless otherwise noted, all references to years relate to the Company's fiscal year.

Use of estimates ~ The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents ~ Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased.

Accounts receivable ~ Accounts receivable are stated net of an allowance for uncollectible accounts of $53.6 million and $47.9 million as of December 29, 2001 and December 30, 2000, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors.

Fair value of financial instruments ~ As of December 29, 2001, the Company's financial instruments include cash and cash equivalents, receivables, accounts payable and debt. Due to the short-term nature of cash and cash equivalents, receivables, accounts payable and commercial paper, the Company's carrying value approximates fair value. The carrying amount of long-term debt was $836.8 million and $558.4 million and the estimated fair value was $822.0 million and $530.6 million as of December 29, 2001 and December 30, 2000, respectively. The fair value of long-term debt was estimated based on rates currently offered to the Company for debt with similar maturities. The Company has no derivative financial instruments.

Inventories ~ Inventories are stated at the lower of cost or market using the first-in, first-out method. The Company utilizes the retail method of accounting to determine cost of sales and inventory. Independent physical inventory counts are taken on a regular basis in each location to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment ~ Depreciation of property and equipment is computed on a straight-line basis, generally over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 5 to 10 years for fixtures, equipment and software.

Following are the components of property and equipment included in the consolidated balance sheets as of the respective balance sheet dates:

In millions	**December 29, 2001**	December 30, 2000
Land	**$ 102.4**	$ 97.1
Buildings and improvements	**262.2**	333.1
Fixtures, equipment and software	**1,702.1**	1,536.6
Leasehold improvements	**749.3**	632.3
Capital leases	**2.1**	2.2
	2,818.1	2,601.3
Accumulated depreciation and amortization	**(970.8)**	(859.2)
	$ 1,847.3	$ 1,742.1

Impairment of long-lived assets ~ The Company groups and evaluates fixed and intangible assets for impairment at an individual store level, which is the lowest level at which individual cash flows can be identified. Goodwill is allocated to individual stores based on historical store contribution, while other intangible assets (primarily customer lists and purchased lease interests) are typically store specific. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset's estimated future cash flows (discounted and with interest charges), then the intangible assets are written down first, followed by the other long-lived assets, to fair value.

Intangible assets ~ Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is being amortized on a straight-line basis generally over 40 years. Accumulated amortization associated with goodwill was $149.9 million as of December 29, 2001 and $127.3 million as of December 30, 2000. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives. Purchased leases are amortized on a straight-line basis over the remaining life of the lease.

Revenue recognition ~ The Company recognizes revenue from the sale of merchandise at the time the merchandise is sold. Service revenue from the Company's pharmacy benefit management segment is recognized at the time the service is provided.

Vendor allowances ~ The total value of any up-front or other periodic payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of goods sold over the life of the contract based upon periodic purchase volume. The total value of any up-front or other periodic payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of goods sold on a straight-line basis over the life of the related contract. Funds that are directly linked to advertising commitments are recognized as a reduction of advertising expense when the related advertising commitment is satisfied.

Store opening and closing costs ~ New store opening costs are charged directly to expense when incurred. When the Company closes a store, the estimated unrecoverable costs, including the remaining lease obligation, are charged to expense.

Advertising costs ~ Advertising costs are expensed when the related advertising takes place.

Stock-based compensation ~ The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123, companies can elect to account for stock-based compensation using a fair value based method or continue to measure compensation expense using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has elected to continue to account for its stock-based compensation plans under APB Opinion No. 25. See Note 7 for further information about the Company's stock incentive plans.

Interest expense, net ~ Interest expense was $65.2 million, $84.1 million and $66.1 million and interest income was $4.2 million, $4.8 million and $7.0 million in 2001, 2000 and 1999, respectively.

Insurance ~ The Company is self-insured for general liability, workers' compensation and automobile liability claims up to $500,000. Third party insurance coverage is maintained for claims that exceed this amount. The Company's self-insurance accruals are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience.

Nonrecurring gains ~ During 2001, the Company received $50.3 million of settlement proceeds from various lawsuits against certain manufacturers of brand name prescription drugs. The Company elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving. The net effect of the two nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings (the "Net Litigation Gain"). During 2000, the Company recorded $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of the Company's share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs.

Income taxes ~ Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes as well as for the deferred tax effects of tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled.

Earnings per common share ~ Basic earnings per common share is computed by dividing: (i) net earnings, after deducting the after-tax ESOP preference dividends, by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

When computing diluted earnings per common share, the Company assumes that the ESOP preference stock is converted into common stock and all dilutive stock options are exercised. After the assumed ESOP preference stock conversion, the ESOP trust would hold common stock rather than ESOP preference stock and would receive common stock dividends (currently $0.23 per share) rather than ESOP preference stock dividends (currently $3.90 per share). Since the ESOP Trust uses the dividends it receives to service its debt, the Company would have to increase its contribution to the ESOP trust to compensate it for the lower dividends. This additional contribution would reduce the Company's net earnings, which in turn, would reduce the amounts that would be accrued under the Company's incentive compensation plans.

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock options are exercised and the ESOP preference stock is converted into common stock.

New Accounting Pronouncements ~ In June 2001, SFAS No. 141, "Business Combinations" was issued. SFAS No. 141, which is effective for acquisitions initiated after June 30, 2001, prohibits the use of the pooling-of-interests method of accounting for business combinations and amends the accounting and financial reporting requirements for business combinations.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142, addresses financial accounting and reporting for acquired goodwill and other intangible assets. Among other things, SFAS No. 142 requires that goodwill no longer be amortized, but rather tested annually for impairment. This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company will adopt SFAS No. 142 effective fiscal 2002 and is evaluating the effect such adoption may have on its consolidated results of operations and financial position. Amortization expense related to goodwill was $31.4 million in 2001 and $33.7 million in 2000.

Also in June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, the Company will adopt SFAS No. 143 effective fiscal 2003 and does not expect that the adoption will have a material impact on its consolidated results of operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company will adopt SFAS No. 144 effective fiscal 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations or financial position.

2 Restructuring & Asset Impairment Charge

During the fourth quarter of 2001, management approved an Action Plan, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies.

Following is a summary of the specific initiatives contained in the Action Plan:

1. 229 CVS/pharmacy and CVS ProCare store locations (the "Stores") would be closed by no later than March 2002. Since these locations were leased facilities, management planned to either return the premises to the respective landlords at the conclusion of the current lease term or negotiate an early termination of the contractual obligations. As of March 2002, all of the Stores had been closed.

2. The Henderson, North Carolina distribution center (the "D.C.") would be closed and its operations would be transferred to the Company's remaining distribution centers by no later than May 2002. Since this location was owned, management planned to sell the property upon closure. As of March 2002, the D.C. is in the final stages of being shutdown and will be completely closed in May 2002.

3. The Columbus, Ohio mail order facility (the "Mail Facility") would be closed and its operations would be transferred to the Company's Pittsburgh, Pennsylvania mail order facility by no later than April 2002. Since this location was a leased facility, management planned to either return the premises to the landlord at the conclusion of the lease or negotiate an early termination of the contractual obligation. The Mail Facility was closed in March 2002.

4. Two satellite office facilities (the "Satellite Facilities") would be closed and their operations would be consolidated into the Company's Woonsocket, Rhode Island corporate headquarters by no later than December 2001. Since these locations were leased facilities, management planned to either return the premises to the landlords at the conclusion of the leases or negotiate an early termination of the contractual obligations. The Satellite Facilities were closed in December 2001.

5. Staff reductions related to the above closings and other streamlining initiatives.

In accordance with, Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," SFAS No. 121, and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," the Company recorded a $346.8 million pre-tax charge ($226.9 million after-tax) to operating expenses during the fourth quarter of 2001 for restructuring and asset impairment

costs associated with the Action Plan. In accordance with Accounting Research Bulletin No. 43, "Restatement and Revision of Accounting Research Bulletins," the Company also recorded a $5.7 million pre-tax charge ($3.6 million after-tax) to cost of goods sold during the fourth quarter of 2001 to reflect the markdown of certain inventory contained in the Stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), or $0.56 per diluted share in 2001 (the "Restructuring Charge").

Following is a summary of the significant components of the Restructuring Charge:

In millions	
Noncancelable lease obligations	$ 227.4
Asset write-offs	105.6
Employee severance and benefits	19.5
Total[1]	$ 352.5

(1) The Restructuring Charge is comprised of $5.7 million recorded in cost of goods sold and $346.8 million recorded in selling, general and administrative expenses.

The Restructuring Charge will require total cash payments of $246.9 million, which primarily consist of noncancelable lease obligations extending through 2024. As of December 29, 2001, the remaining future cash payments total $244.8 million.

Noncancelable lease obligations included $227.4 million for the estimated continuing lease obligations of the Stores, the Mail Facility and the Satellite Facilities. As required by EITF Issue 88-10, "Costs Associated with Lease Modification or Termination," the estimated continuing lease obligations were reduced by estimated probable sublease rental income.

Asset write-offs included $59.0 million for fixed asset write-offs, $40.9 million for intangible asset write-offs and $5.7 million for the markdown of certain inventory to its net realizable value. The fixed asset and intangible asset write-offs relate to the Stores, the Mail Facility and the Satellite Facilities. Management's decision to close the above locations was considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to use the Stores and the Mail Facility on a short-term basis during the shutdown period, impairment was measured using the "Assets to Be Held and Used" provisions of SFAS No. 121. The analysis was prepared at the individual location level, which is the lowest level at which individual cash flows can be identified. The analysis first compared the carrying amount of the location's assets to the location's estimated future cash flows (undiscounted and without interest charges) through the anticipated closing date. If the estimated future cash flows used in this analysis were less than the carrying amount of the location's assets, an impairment loss calculation was prepared. The impairment loss calculation compared the carrying value of the location's assets to the location's estimated future cash flows (discounted and with interest charges). Since these locations will continue to be operated until closed, any remaining net book value after the impairment write down, will be depreciated over their revised useful lives. Impairment of the Satellite Facilities was measured using the "Assets to Be Disposed Of" provisions of SFAS No. 121, since management intended to vacate the locations immediately. The entire $3.5 million net book value of the Satellite Facilities was considered to be impaired since management intended to discard the assets located in the facilities. The inventory markdown resulted from the liquidation of certain front store inventory contained in the Stores. Since management intended to liquidate the inventory below its cost, an adjustment was made to reduce the inventory's cost to its net realizable value.

Employee severance and benefits included $19.5 million for severance pay, healthcare continuation costs and outplacement service costs related to approximately 1,500 managerial, administrative and store employees in the Company's Woonsocket, Rhode Island corporate headquarters; Columbus, Mail Facility; Henderson, D.C. and the Stores. As of March 2002, approximately 90% of the employees had been terminated. The remaining employees, which are primarily located in the D.C., will be terminated during the second quarter of 2002.

Following is a reconciliation of the beginning and ending liability balances as of December 29, 2001:

In millions	Noncancelable Lease Obligations[1]	Asset Write-Offs	Employee Severance & Benefits	Total
Restructuring charge	$ 227.4	$ 105.6	$ 19.5	$ 352.5
Utilized – Cash	—	—	(2.1)	(2.1)
Utilized – Non-cash	—	(105.6)	—	(105.6)
Balance at 12/29/01[2]	$ 227.4	$ —	$ 17.4	$ 244.8

(1) Noncancelable lease obligations extend through 2024.

(2) The Company believes that the reserve balances as of December 29, 2001 are adequate to cover the remaining liabilities associated with the Restructuring Charge.

3 Leases

The Company leases most of its retail locations and five of its distribution centers under noncancelable operating leases, whose initial terms are typically 22 years, along with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, whose initial terms typically range from 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursements for real estate taxes, maintenance and insurance.

Following is a summary of the Company's net rental expense for operating leases for the respective years:

In millions	**2001**	2000	1999
Minimum rentals	**$ 758.2**	$ 684.9	$ 572.4
Contingent rentals	**67.6**	66.3	64.8
	825.8	751.2	637.2
Less: sublease income	**(9.1)**	(9.2)	(13.2)
	$ 816.7	$ 742.0	$ 624.0

Following is a summary of the future minimum lease payments under capital and operating leases as of December 29, 2001:

In millions	Capital Leases	Operating Leases
2002	$ 0.2	$ 756.4
2003	0.2	712.5
2004	0.2	671.9
2005	0.2	623.2
2006	0.2	559.4
Thereafter	0.7	5,507.5
	1.7	$ 8,830.9
Less: imputed interest	(0.7)	
Present value of capital lease obligations	$ 1.0	

The Company finances a portion of its store development program through sale-leaseback transactions. Typically, the properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. Proceeds from sale-leaseback transactions totaled $323.3 million in 2001 and $299.3 million in 2000. During 2001, the Company completed a sale-leaseback transaction involving five of our distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. The operating leases that resulted from these transactions are included in the above table.

4 Borrowing and Credit Agreements

Following is a summary of the Company's borrowings as of the respective balance sheet dates:

In millions	**December 29, 2001**	December 30, 2000
Commercial paper	**$ 235.8**	$ 589.6
8.52% ESOP notes due 2008[1]	**219.9**	240.6
5.5% senior notes due 2004	**300.0**	300.0
5.625% senior notes due 2006	**300.0**	—
Mortgage notes payable	**15.9**	16.6
Capital lease obligations	**1.0**	1.2
	1,072.6	1,148.0
Less:		
Short-term debt	**(235.8)**	(589.6)
Current portion of long-term debt	**(26.4)**	(21.6)
	$ 810.4	$ 536.8

(1) See Note 5 for further information about the Company's ESOP Plan.

In connection with our commercial paper program the Company maintains a $650 million, five-year unsecured back-up credit facility, which expires on May 30, 2006 and a $650 million, 364-day unsecured back-up credit facility, which expires on May 30, 2002. The credit facilities allow for borrowings at various rates depending on our public debt ratings and require the Company to pay a quarterly facility fee of 0.08%, regardless of usage. As of December 29, 2001, the Company had not borrowed against the credit facilities. Interest paid totaled $75.2 million in 2001, $98.3 million in 2000 and $69.0 million in 1999. The weighed average interest rate for short-term debt was 2.1% as of December 29, 2001 and 6.9% as of December 30, 2000.

In March 2001, the Company issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. The Company may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

The Credit Facilities and unsecured senior notes contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 29, 2001 are $26.4 million in 2002, $32.2 million in 2003, $323.4 million in 2004, $28.1 million in 2005 and $334.5 million in 2006.

5 Employee Stock Ownership Plan

The Company sponsors a defined contribution Employee Stock Ownership Plan (the "ESOP") that covers full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 2.314 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on: (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan. As of December 29, 2001, 4.9 million shares of ESOP Preference Stock were outstanding, of which 2.3 million shares were allocated to participants and the remaining 2.6 million shares were held in the ESOP Trust for future allocations.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

Following is a summary of the ESOP activity for the respective years:

In millions	**2001**	2000	1999
ESOP expense recognized	**$ 22.1**	$ 18.8	$ 16.6
Dividends paid	**19.1**	19.5	20.1
Cash contributions	**22.1**	18.8	16.6
Interest payments	**20.5**	21.9	23.1
ESOP shares allocated	**0.4**	0.3	0.3

6 Pension Plans and Other Postretirement Benefits

The Company sponsors a noncontributory defined benefit pension plan that covers certain full-time employees of Revco, D.S., Inc who were not covered by collective bargaining agreements. On September 20, 1997, the Company suspended future benefit accruals under this plan. Benefits paid to retirees are based upon age at retirement, years of credited service and average compensation during the five year period ending September 20, 1997. The plan is funded based on actuarial calculations and applicable federal regulations.

Pursuant to various labor agreements, the Company is also required to make contributions to certain union-administered pension and health and welfare plans that totaled $11.1 million, $9.3 million and $8.4 million in 2001, 2000 and 1999, respectively. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees for whom it has purchased cost recovery variable life insurance.

Defined Contribution Plans

The Company sponsors a voluntary 401(k) Savings Plan that covers substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plan. At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans totaled $26.7 million, $23.0 million and $17.0 million in 2001, 2000 and 1999, respectively. The Company also sponsors an Employee Stock Ownership Plan. See Note 5 for further information about this plan.

Other Postretirement Benefits

The Company provides postretirement healthcare and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred.

Following is a reconciliation of the benefit obligation, fair value of plan assets and funded status of the Company's defined benefit and other postretirement benefit plans as of the respective balance sheet dates:

	Defined Benefit Plans		Other Postretirement Benefits	
In millions	**2001**	2000	**2001**	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 267.2**	$ 254.8	**$ 13.4**	$ 14.0
Service cost	**0.5**	0.9	**—**	—
Interest cost	**20.9**	19.8	**0.9**	1.0
Actuarial loss (gain)	**9.3**	9.6	**(0.1)**	(0.5)
Benefits paid	**(14.8)**	(17.9)	**(1.3)**	(1.1)
Benefit obligation at end of year	**$ 283.1**	$ 267.2	**$ 12.9**	$ 13.4
Change in plan assets:				
Fair value at beginning of year	**$ 234.7**	$ 248.8	**$ —**	$ —
Actual return on plan assets	**(16.0)**	(3.3)	**—**	—
Company contributions	**14.5**	7.1	**1.3**	1.1
Benefits paid	**(14.8)**	(17.9)	**(1.3)**	(1.1)
Fair value at end of year[1]	**$ 218.4**	$ 234.7	**$ —**	$ —
Funded status:				
Funded status	**$ (64.7)**	$ (32.5)	**$ (12.9)**	$ (13.4)
Unrecognized prior service cost	**0.9**	1.0	**(0.7)**	(0.8)
Unrecognized net gain	**(3.5)**	(27.7)	**(0.3)**	(0.4)
Accrued pension costs	**$ (67.3)**	$ (59.2)	**$ (13.9)**	$ (14.6)

(1) Plan assets consist primarily of mutual funds, common stock and insurance contracts.

Following is a summary of the net periodic pension cost for the defined benefit and other postretirement benefit plans for the respective years:

	Defined Benefit Plans			Other Postretirement Benefits		
In millions	**2001**	2000	1999	**2001**	2000	1999
Service cost	**$ 0.5**	$ 0.9	$ 0.7	**$ —**	$ —	$ —
Interest cost on benefit obligation	**20.9**	19.8	19.8	**0.9**	1.0	0.9
Expected return on plan assets	**(20.2)**	(18.6)	(16.6)	**—**	—	—
Amortization of net (gain) loss	**(0.3)**	(0.1)	1.3	**(0.2)**	(0.2)	—
Amortization of prior service cost	**0.1**	0.1	0.1	**(0.1)**	(0.1)	(0.1)
Settlement gain	**(0.2)**	—	—	**—**	—	—
Net periodic pension cost	**$ 0.8**	$ 2.1	$ 5.3	**$ 0.6**	$ 0.7	$ 0.8
Weighted average assumptions:						
Discount rate	**7.50%**	7.75%	8.00%	**7.25%**	7.75%	7.75%
Expected return on plan assets	**9.25%**	9.25%	9.00%	**—**	—	—
Rate of compensation increase	**4.00%**	4.00%	4.00%	**—**	—	—

For measurement purposes, future healthcare costs are assumed to increase at an annual rate of 9.0%, decreasing to an annual growth rate of 5.0% in 2006 and thereafter. A one percent change in the assumed healthcare cost trend rate would change the accumulated postretirement benefit obligation by $0.7 million and the total service and interest costs by $0.1 million.

7 Stock Incentive Plans

The 1997 Incentive Compensation Plan provides for the granting of up to 42.9 million shares of common stock in the form of stock options and other awards to selected officers and employees of the Company. All grants under the plan are awarded at fair market value on the date of grant. Generally, options become exercisable over a four-year period from the grant date and expire ten years after the date of grant. As of December 29, 2001, there were 27.3 million shares available for future grants.

The 1996 Directors Stock Plan provides for the granting of up to 346,460 shares of common stock to the Company's nonemployee directors. The plan allows the nonemployee directors to elect to receive shares of common stock or stock options in lieu of cash compensation. As of December 29, 2001, there were 204,005 shares available for future grants under the plan.

Following is a summary of the stock option activity for the respective years:

	2001		2000		1999	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**14,646,990**	**$ 31.11**	12,964,600	$ 27.38	11,982,122	$ 23.31
Granted[1]	**5,380,520**	**59.55**	6,964,015	33.84	2,175,342	48.02
Exercised	**(1,083,533)**	**23.13**	(3,510,785)	19.55	(927,080)	18.87
Canceled	**(1,317,253)**	**43.14**	(1,770,840)	37.37	(265,784)	37.65
Outstanding at end of year	**17,626,724**	**39.48**	14,646,990	31.11	12,964,600	27.38
Exercisable at end of year	**4,608,595**	**$ 25.09**	4,048,842	$ 18.85	6,065,351	$ 17.92

(1) During 2001 and 2000, the Company granted 3.0 million and 5.1 million stock options, respectively, to substantially all full-time pharmacists and store managers.

Following is a summary of the stock options outstanding and exercisable as of December 29, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Under $15	314,984	3.5	$ 12.54	314,846	$ 12.54
$15.01 to $25.00	3,184,768	3.7	18.65	2,864,758	18.16
25.01 to 35.00	4,328,424	8.1	31.75	45,814	29.11
35.01 to 50.00	4,920,863	6.7	40.70	1,381,844	42.16
50.01 to 61.23	4,877,685	9.0	60.44	1,333	51.38
Total	17,626,724	7.1	$ 39.48	4,608,595	$ 25.09

Restricted shares issued under the 1997 Incentive Compensation Plan totaled 76,164, 952,251 and 59,908 shares in 2001, 2000 and 1999, respectively. Fair market value on the date of grant was $4.6 million in 2001, $29.1 million in 2000 and $3.1 million in 1999. Compensation costs are recognized over the restricted period and totaled $5.4 million in 2001, $5.9 million in 2000 and $2.3 million in 1999.

The 1999 Employee Stock Purchase Plan provides for the granting of up to 7.4 million shares of common stock. Under the plan, eligible employees may purchase common stock at the end of each six-month offering period, at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. As of December 29, 2001, 1.7 million shares of common stock have been issued under the plan.

The Company applies APB Opinion No. 25 to account for its stock incentive plans. Accordingly, no compensation cost has been recognized for stock options granted. Had compensation cost been recognized based on the fair value of stock options granted consistent with SFAS No. 123, net earnings and net earnings per common share ("EPS") would approximate the pro forma amounts shown below:

In millions, except per share amounts		2001	2000	1999
Net earnings:	As reported	**$ 413.2**	$ 746.0	$ 635.1
	Pro forma	**357.1**	717.7	614.7
Basic EPS:	As reported	**$ 1.02**	$ 1.87	$ 1.59
	Pro forma	**0.87**	1.80	1.53
Diluted EPS:	As reported	**$ 1.00**	$ 1.83	$ 1.55
	Pro forma	**0.86**	1.76	1.50

The fair value of each stock option grant was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2001	2000	1999
Dividend yield	**0.77%**	0.40%	0.58%
Expected volatility	**29.79%**	27.92%	25.86%
Risk-free interest rate	**5.00%**	6.25%	6.50%
Expected life	**7.0**	6.5	6.0

8 Income Taxes

The income tax provision consisted of the following for the respective years:

In millions		2001	2000	1999
Current:	Federal	**$ 360.3**	$ 397.2	$ 289.6
	State	**53.9**	73.9	68.4
		414.2	471.1	358.0
Deferred:	Federal	**(111.8)**	21.9	72.6
	State	**(6.0)**	4.4	10.7
		(117.8)	26.3	83.3
Total		**$ 296.4**	$ 497.4	$ 441.3

Following is a reconciliation of the statutory income tax rate to the Company's effective tax rate for the respective years:

	2001	2000	1999
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.4**	4.1	4.8
Goodwill and other	**1.0**	0.9	1.2
Effective tax rate before Restructuring Charge	**39.4**	40.0	41.0
Restructuring Charge[1]	**2.4**	—	—
Effective tax rate	**41.8%**	40.0%	41.0%

(1) Includes state tax effect.

Following is a summary of the significant components of the Company's deferred tax assets and liabilities as of the respective balance sheet dates:

In millions	December 29, 2001	December 30, 2000
Deferred tax assets:		
Employee benefits	**$ 53.2**	$ 65.1
Inventory	**9.8**	—
Restructuring Charge	**122.0**	—
Other	**136.4**	137.4
Total deferred tax assets	**321.4**	202.5
Deferred tax liabilities:		
Accelerated depreciation	**(114.1)**	(98.6)
Inventory	**—**	(7.0)
Total deferred tax liabilities	**(114.1)**	(105.6)
Net deferred tax assets	**$ 207.3**	$ 96.9

Income taxes paid were $397.0 million, $342.5 million and $354.5 million for 2001, 2000 and 1999, respectively.

Based on historical pre-tax earnings, the Company believes it is more likely than not that the deferred tax assets will be realized.

9 Commitments & Contingencies

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 1,100 former stores. The respective purchasers indemnify the Company for these obligations. Assuming that each respective purchaser became insolvent, an event which the Company believes to be highly unlikely, management estimates that it could settle these obligations for approximately $760 million as of December 29, 2001.

In the opinion of management, the ultimate disposition of these guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

The Company is the defendant in a collective action under the Fair Labor Standards Act (the "FLSA"), which has been filed against CVS in the Federal District Court of Alabama by certain current and former CVS pharmacists. The action contends that, as a result of CVS' pay practices, these pharmacists should not be treated as salaried exempt employees for purposes of the FLSA and, therefore, the Company violated the FLSA by failing to pay such pharmacists at a rate of time and one-half for hours worked over 40 in any given work week. Plaintiffs seek recovery of unpaid overtime as well as payment of liquidated damages, expenses and reasonable attorneys' fees. This action is in the discovery phase and it is not yet possible to predict the outcome or reasonably estimate the possible range of loss, if any, for this case.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company.

As of December 29, 2001, the Company had outstanding commitments to purchase $269 million of merchandise inventory for use in the normal course of business. The Company currently expects to satisfy these purchase commitments by 2008.

10 Business Segments

The Company currently operates two business segments, Retail Pharmacy and Pharmacy Benefit Management ("PBM"). During 2001, the Company changed its reporting structure and as a result, the Specialty Pharmacy business and the Internet Pharmacy business are no longer considered to be business segments. The Specialty Pharmacy business is now a component of the PBM segment and the Internet Pharmacy business a component of the Retail Pharmacy segment. Prior year amounts have been reclassified to reflect the current year presentation.

The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

As of December 29, 2001, the Retail Pharmacy segment included 4,145 retail drugstores and the Company's online retail website, CVS.com. The retail drugstores are located in 25 states and the District of Columbia and operate under the CVS/pharmacy name. The Retail Pharmacy segment is the Company's only reportable segment.

The PBM segment provides a full range of prescription benefit management services to managed care providers and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM segment also includes the Company's specialty pharmacy business, which focuses on supporting individuals that require complex and expensive drug therapies. The PBM segment operates under the PharmaCare Management Services name, while the specialty pharmacy mail order facilities and 46 retail pharmacies, located in 20 states and the District of Columbia, operate under the CVS ProCare name.

The accounting policies of the segments are substantially the same as those described in Note 1. The Company evaluates segment performance based on operating profit before the effect of nonrecurring charges and gains and intersegment profits.

Following is a reconciliation of the significant components of the Retail Pharmacy segment's net sales for the respective years:

	2001	2000	1999
Pharmacy	**66.1%**	62.7%	58.7%
Front store	**33.9**	37.3	41.3
Total net sales	**100.0%**	100.0%	100.0%

Following is a reconciliation of the Company's business segments to the consolidated financial statements:

In millions	Retail Pharmacy Segment	All Other Segments	Other Adjustments[1]	Consolidated Totals
2001:				
Net sales	**$ 21,328.7**	**$ 912.7**	**$ —**	**$ 22,241.4**
Operating profit	**1,079.9**	**39.7**	**(349.0)**	**770.6**
Depreciation and amortization	**301.7**	**19.1**	**—**	**320.8**
Total assets	**8,123.7**	**504.5**	**—**	**8,628.2**
Additions to property and equipment	**705.3**	**8.3**	**—**	**713.6**
2000:				
Net sales	$ 19,382.1	$ 705.4	$ —	$ 20,087.5
Operating profit	1,268.5	35.0	19.2	1,322.7
Depreciation and amortization	289.4	7.2	—	296.6
Total assets	7,514.4	435.1	—	7,949.5
Additions to property and equipment	687.1	8.2	—	695.3
1999:				
Net sales	$ 17,627.7	$ 470.6	$ —	$ 18,098.3
Operating profit	1,107.9	27.6	—	1,135.5
Depreciation and amortization	275.4	2.5	—	277.9
Total assets	7,158.5	116.9	—	7,275.4
Additions to property and equipment	713.3	9.4	—	722.7

(1) In 2001, other adjustments relate to the $352.5 million Restructuring Charge and the $3.5 million Net Litigation Gain. See Note 2 for further information on the Restructuring Charge and Note 1 for further information on the Net Litigation Gain. In 2000, other adjustments relate to the settlement proceeds received from a class action lawsuit against certain manufacturers of brand name prescription drugs. Nonrecurring charges and gains are not considered when management assesses the stand-alone performance of the Company's business segments.

11 Reconciliation of Earnings Per Common Share

Following is a reconciliation of basic and diluted earnings per common share for the respective years:

In millions, except per share amounts	2001	2000	1999
Numerator for earnings per common share calculation:			
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Preference dividends, net of income tax benefit	**(14.7)**	(14.6)	(14.7)
Net earnings available to common shareholders, basic	**$ 398.5**	$ 731.4	$ 620.4
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Dilutive earnings adjustment	**(4.8)**	(0.7)	—
Net earnings available to common shareholders, diluted	**$ 408.4**	$ 745.3	$ 635.1
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**392.2**	391.0	391.3
Effect of dilutive securities:			
Preference stock	**10.8**	10.8	10.7
Stock options	**5.3**	6.2	6.9
Weighted average common shares, diluted	**408.3**	408.0	408.9
Basic earnings per common share:			
Net earnings	**$ 1.02**	$ 1.87	$ 1.59
Diluted earnings per common share:			
Net earnings	**$ 1.00**	$ 1.83	$ 1.55

12 Quarterly Financial Information (Unaudited)

Dollars in millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2001:					
Net sales	**$ 5,385.9**	**$ 5,494.2**	**$ 5,410.8**	**$ 5,950.5**	**$ 22,241.4**
Gross margin	**1,453.4**	**1,458.4**	**1,371.8**	**1,407.4**	**5,691.0**
Operating profit (loss)	**381.4**	**342.0**	**220.2**	**(173.0)**	**770.6**
Net earnings (loss)	**221.7**	**198.0**	**123.7**	**(130.2)**	**413.2**
Net earnings per common share, basic	**0.56**	**0.49**	**0.31**	**(0.34)**	**1.02**
Net earnings per common share, diluted[1]	**0.54**	**0.48**	**0.30**	**(0.34)**	**1.00**
Dividends per common share	**0.0575**	**0.0575**	**0.0575**	**0.0575**	**0.2300**
Stock price: (New York Stock Exchange)					
High	**62.10**	**59.75**	**40.48**	**34.55**	**62.10**
Low	**51.00**	**36.51**	**31.40**	**23.28**	**23.28**
Registered shareholders at year-end					**11,000**
2000:					
Net sales	$ 4,739.5	$ 4,942.8	$ 4,916.4	$ 5,488.8	$ 20,087.5
Gross margin	1,300.0	1,335.8	1,297.4	1,428.5	5,361.7
Operating profit	334.9	333.9	284.7	369.2	1,322.7
Net earnings	191.3	186.5	158.7	209.5	746.0
Net earnings per common share, basic	0.48	0.47	0.40	0.53	1.87
Net earnings per common share, diluted	0.47	0.46	0.39	0.51	1.83
Dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
Stock price: (New York Stock Exchange)					
High	40.63	46.75	46.31	59.94	59.94
Low	28.00	35.88	34.38	44.31	28.00

(1) In accordance with SFAS No. 128, "Earnings per Share", the assumed conversion of ESOP preference stock and outstanding stock options were excluded from the diluted earnings per common share calculation in the fourth quarter of 2001 since their effect would be antidilutive. This results in diluted earnings per common share equal to basic earnings per common share for the fourth quarter of 2001.

Five-Year Financial Summary

In millions, except per share amounts	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)	1998 (52 weeks)	1997 (52 weeks)
Statement of operations data:					
Net sales	**$ 22,241.4**	$ 20,087.5	$ 18,098.3	$ 15,273.6	$ 13,749.6
Gross margin[1]	**5,691.0**	5,361.7	4,861.4	4,129.2	3,718.3
Selling, general and administrative expenses	**4,256.3**	3,761.6	3,448.0	2,949.0	2,776.0
Depreciation and amortization	**320.8**	296.6	277.9	249.7	238.2
Merger, restructuring and other nonrecurring charges and (gains)	**343.3**	(19.2)	—	178.6	422.4
Total operating expenses	**4,920.4**	4,039.0	3,725.9	3,377.3	3,436.6
Operating profit[2]	**770.6**	1,322.7	1,135.5	751.9	281.7
Other expense (income), net	**61.0**	79.3	59.1	60.9	44.1
Income tax provision	**296.4**	497.4	441.3	306.5	149.2
Earnings from continuing operations before extraordinary item[3]	**$ 413.2**	$ 746.0	$ 635.1	$ 384.5	$ 88.4
Per common share data:					
Earnings from continuing operations before extraordinary item:[3]					
Basic	**$ 1.02**	$ 1.87	$ 1.59	$ 0.96	$ 0.20
Diluted	**1.00**	1.83	1.55	0.95	0.19
Cash dividends per common share	**0.230**	0.230	0.230	0.225	0.220
Balance sheet and other data:					
Total assets	**$ 8,628.2**	$ 7,949.5	$ 7,275.4	$ 6,686.2	$ 5,920.5
Long-term debt	**810.4**	536.8	558.5	275.7	290.4
Total shareholders' equity	**4,566.9**	4,304.6	3,679.7	3,110.6	2,626.5
Number of stores (at end of period)	**4,191**	4,133	4,098	4,122	4,094

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 2001, $5.7 million ($3.6 million after-tax) related to the markdown of certain inventory contained in the stores closing as part of the Action Plan, discussed in Note 2 to the Consolidated Financial Statements, to its net realizable value, (ii) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor Drugs, Inc. merchandise and (iii) in 1997, $75.0 million ($49.9 million after-tax) related to the markdown of noncompatible Revco D.S., Inc. merchandise.

(2) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2001, $346.8 million ($226.9 million after-tax) related to restructuring and asset impairment costs associated with the Action Plan and $3.5 million ($2.1 million after-tax) nonrecurring gain resulting from the net effect of the $50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs which was offset by the Company's contribution of $46.8 million of these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving, (ii) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain representing partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (iii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures and (iv) in 1997, $337.1 million ($229.8 million after-tax) charge related to the merger of CVS and Revco on May 29, 1997, $54.3 million ($32.0 million after-tax) of nonrecurring costs incurred in connection with eliminating Revco's information technology systems and noncompatible store merchandise fixtures and $31.0 million ($19.1 million after-tax) charge related to the restructuring of Big B, Inc.

(3) Earnings from continuing operations before extraordinary item and earnings per common share from continuing operations before extraordinary item include the after-tax effect of the charges and gains discussed in Notes (1) and (2) above.

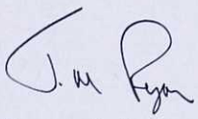
Management's Responsibility for Financial Reporting

The integrity and objectivity of the financial statements and related financial information in this Annual Report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include, when necessary, the best estimate and judgments of management.

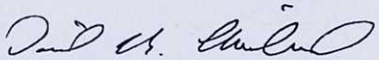
The Company maintains a system of internal controls designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization, and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions and the recommendations of the Company's internal auditors and independent auditors.

KPMG LLP, independent auditors, were engaged to render an opinion regarding the fair presentation of the consolidated financial statements of the Company. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America and included a review of the system of internal controls to the extent they considered necessary to support their opinion.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, internal auditors and the independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal accounting controls and the scope and results of audit work. The internal auditors and independent auditors have free access to the Audit Committee.



Thomas M. Ryan
Chairman of the Board, President and
Chief Executive Officer



David B. Rickard
Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

February 1, 2002

Independent Auditors' Report

KPMG

Board of Directors and Shareholders
CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation and subsidiaries as of December 29, 2001 and December 30, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000 and the fifty-three week period ended January 1, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVS Corporation and subsidiaries as of December 29, 2001 and December 30, 2000, and the results of their operations and their cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000 and the fifty-three week period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Providence, Rhode Island

February 1, 2002

Officers

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Chairman of the Board, President and Chief Executive Officer

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Executive Vice President, Chief Financial Officer and Chief Administrative Officer

Chris W. Bodine
Executive Vice President - Merchandising and Marketing

Deborah G. Ellinger
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CVS Corporation

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United Ways of New England

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Equity Group Investments, LLC

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Chairman of the Board, President and Chief Executive Officer
CVS Corporation

Ivan G. Seidenberg[2]
President and Co-Chief Executive Officer
Verizon Communications Corporation

(1) Member of the Audit Committee.

(2) Member of the Management Planning and Development Committee.

(3) Member of Nominating and Corporate Governance Committee.

Shareholder Information

Corporate Headquarters
CVS Corporation
One CVS Drive, Woonsocket, RI 02895
(401) 765-1500

Annual Shareholders' Meeting
10:00 a.m. April 17, 2002
CVS Corporate Headquarters

Stock Market Listing
New York Stock Exchange
Symbol: CVS

Transfer Agent and Registrar
Questions regarding stock holdings, certificate replacement/transfer, dividends and address changes should be directed to:
The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
Toll-free: (877) CVSPLAN (287-7526)
E-mail: shareowner-svcs@bankofny.com

Direct Stock Purchase/Dividend Reinvestment Program
BuyDIRECT[sm] provides a convenient and economical way for you to purchase your first shares or additional shares of CVS common stock. The program is sponsored and administered by The Bank of New York. For more information, including an enrollment form, please contact:
The Bank of New York at (877) 287-7526

Financial and Other Company Information
The Company's Annual Report on Form 10-K will be sent without charge to any shareholder upon request by contacting:
Nancy R. Christal
Vice President - Investor Relations
CVS Corporation
670 White Plains Road - Suite 210
Scarsdale, NY 10583
(800) 201-0938

In addition, financial reports and recent filings with the Securities and Exchange Commission, including our Form 10-K, as well as other Company information, are available via the Internet at **http://www.cvs.com.**

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CVS Corporation
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